SaskWater

Saskatchewan Water Corporation

Second Quarter Report
June 30, 2015

SaskWater

Corporate Profile

SaskWater is committed to providing the highest level of service to its customers.

That promise is reflected in the corporation's Vision, Mission and Values.

Our Vision is to be the best at connecting water for life and growth, partnering for a better tomorrow.

Our Mission is to provide safe, reliable and sustainable water and wastewater services for Saskatchewan.

SaskWater is Saskatchewan's commercial Crown water utility, helping communities, First Nations and industry gain access to reliable and professional water and wastewater services.

SaskWater provides professional water and wastewater services to 63 communities, eight rural municipalities, 83 rural pipeline groups, 16 industrial and 236 commercial and end user customers. SaskWater serves more than 72,000 people in Saskatchewan

The corporation owns eight water treatment plants, three wastewater facilities, 39 pump stations, 140 kilometres of canal and 865 kilometres of pipeline. SaskWater also maintains customer-owned systems and provides operator training to 29 Saskatchewan First Nations communities.

SaskWater's Values

Integrity - We act ethically with respect, honesty, courtesy and fairness.

Professionalism - We provide quality, expertise and excellence in the delivery of our services, and we are accountable for our actions.

Teamwork - We promote cooperation and commitment to achieve our common goals.

Safety - We are committed to safety in all aspects of our operations.

Innovation - We pursue continuous improvement and innovative solutions.

Environment - We respect and support the environment and communities where we live and work.

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Financial and Operating Highlights

	Three Months Ended June 30		Six Months Ended June 30	
	2015	2014	2015	2014
FINANCIAL HIGHLIGHTS ($ thousands):				
Total revenue	$ 12,605	$ 11,067	$ 23,562	$ 21,397
Total expenses	10,230	9,707	19,763	18,656
Operating income	2,375	1,360	3,799	2,741
Net finance income (expense)	(961)	45	(644)	43
Net Income	$ 1,414	$ 1,405	$ 3,155	$ 2,784
Unrealized gains (losses) included in net finance amount	$ (681)	$ 318	$ (458)	$ 692
Dividends	$ 365	$ -	$ 662	$ -
Debt Ratio			45.38%	46.78%
OPERATING HIGHLIGHTS (cubic meters):				
Non-potable water distributed	9,740,787	7,988,665	18,545,709	15,408,351
Potable water distributed	1,952,469	1,795,148	3,519,469	3,384,185

SaskWater

Management Discussion and Analysis

Introduction

Management's Discussion and Analysis (MD&A) highlights the primary factors that affected the financial results and operations of SaskWater for the six months ended June 30, 2015.

The MD&A should be read in conjunction with the unaudited condensed financial statements which have been prepared in accordance with International Accounting Standard (IAS) 34 – Interim Financial Reporting using accounting policies consistent with International Financial Reporting Standards (IFRS).

The Board of Directors has approved these interim financial statements.

For additional information refer to SaskWater's 2014 Annual Report.

SaskWater has defined four measurable strategic objectives to guide the corporation: Customer Driven, Pursuing Excellence, Valuing Employees, and Succeeding Financially.

SaskWater employs provincially certified operators supported by a team of highly qualified technicians, technologists and professional engineers. In addition to operating its own systems, the company also provides certified operations and maintenance for water and wastewater systems.

SaskWater currently owns and operates regional wastewater treatment facilities at Nipawin and Fort Qu'Appelle and a municipal wastewater facility serving Pierceland.

SaskWater can address new demands for water and wastewater services from municipal customers through further:

- Development of service clusters for cost-effective delivery of services to customers

- Implementation of proven treatment plant technologies that exceed regulatory requirements and ensure quality control is maintained, and,

- By ensuring the company has the people and the training to meet anticipated demand for services.

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Highlights

Non-Potable Water

Non-potable water is primarily distributed to large industrial customers, especially in the potash mining sector. The change in volumes is largely related to market conditions within the potash sector. In 2015, volumes are 20% higher than 2014 with most potash customers increasing their consumption year to date. In addition, SaskWater began providing significant non-potable water volumes to the K+S Potash Canada Legacy mine in 2015.

Potable Water

Potable water is primarily supplied to municipal customers. Water volumes within municipalities tend to be more stable during the first quarter of the year. Seasonal fluctuations are more often noted during the second and third quarter and are influenced by temperature and precipitation and the resulting impact on such uses as lawn and garden watering. Volumes are 4% higher in 2015 than 2014 year to date.

Services

Service revenues include certified operations and maintenance where SaskWater provides operator expertise to run customer owned facilities; project management which is largely related to pre-construction engineering services while project proponents complete their feasibility analysis; operator training support to 29 First Nations and northern project management which relates to engineering services to northern Saskatchewan communities primarily in conjunction with the Ministry of Government Relations.

Project management revenues were higher in the first six months of 2015 than in the first six months of 2014. This was largely in response to a decision by a major project proponent in 2014 to slow the pace of their development work. In 2015, work for this project has resumed with an expectation to complete the feasibility work before the end of the year.

Expenses

Expenses have increased in the first six months of 2015 over the first six months of 2014 largely in response to the increased project management work, the increased volume of water distributed, and rate increases from major suppliers, particularly urban water utilities that SaskWater purchases treated water from to redistribute to customers.

Net Finance Income (Expense)

Finance costs include debt servicing costs on funds borrowed to support investments less earnings on debt retirement funds that are set aside to retire capital market debts on their maturity. The debt retirement funds were $17,810,000 at the end of the first six months of 2015. Debt retirement funds are adjusted to reflect the change in market value of the underlying securities at each reporting period and resulted in a net loss to date of $(458,000) for 2015 compared to net gains of $692,000 for the same period in 2014.

The debt retirement funds are managed and actively traded by the Ministry of Finance. During the first six months of 2015, the Ministry experienced significant trading gains of $774,000 (2014 - $313,000). All combined, the trading gains, unrealized market gains and losses and debt servicing costs resulted in an overall net expense in 2015 of $(644,000) compared to an overall net income of $43,000 for the same period in 2014 from financing related activities.

Saskatchewan Water Corporation

Statement of Financial Position

(unaudited - thousands of dollars)

	as at June 30, 2015	as at December 31, 2014	Change
Assets			
Current assets			
Cash	$ 5,921	$ 11,747	$ (5,826)
Trade and other receivables	21,351	29,215	(7,864)
Prepaid expenses and inventories	769	642	127
	28,041	41,604	(13,563)
Investment - debt retirement funds	17,810	16,989	821
Property, plant and equipment	274,788	257,790	16,998
	$ 320,639	$ 316,383	$ 4,256
Liabilities and Province of Saskatchewan's Equity			
Current liabilities			
Trade and other payables	$ 13,733	$ 21,913	$ (8,180)
Notes payable	23,719	20,128	3,591
Infrastructure deposits	10,106	19,099	(8,993)
Dividends payable	365	-	365
Current portion of deferred revenue	2,864	3,020	(156)
Current portion of long-term debt	4,807	2,407	2,400
	55,594	66,567	(10,973)
Deferred revenue	175,435	160,232	15,203
Provisions	1,569	1,636	(67)
Long-term debt	33,893	36,293	(2,400)
Employee benefits	454	454	-
	266,945	265,182	1,763
Province of Saskatchewan's Equity			
Equity advance	8,700	8,700	-
Retained earnings	44,994	42,501	2,493
	53,694	51,201	2,493
	$ 320,639	$ 316,383	$ 4,256

Saskatchewan Water Corporation

Statement of Operations and Comprehensive Income

(unaudited - thousands of dollars)

	Three months ended June 30			Six months ended June 30		
	Actual 2015	Actual 2014	Variance	Actual 2015	Actual 2014	Variance
Revenue (Note 4)						
Water sales and treatment	$ 9,502	$ 8,421	$ 1,081	$ 17,605	$ 16,155	$ 1,450
Services	2,216	1,734	482	4,193	3,418	775
Other	887	912	(25)	1,764	1,824	(60)
	12,605	11,067	1,538	23,562	21,397	2,165
Expenses						
Salaries and benefits	2,960	2,918	(42)	5,944	5,745	(199)
Operations, maintenance, and administration	3,076	2,924	(152)	6,001	5,529	(472)
Amortization of property, plant and equipment	1,937	2,077	140	3,875	4,089	214
Bulk water purchases	2,082	1,609	(473)	3,588	2,934	(654)
Saskatchewan taxes	175	179	4	355	359	4
	10,230	9,707	(523)	19,763	18,656	(1,107)
Operating income	2,375	1,360	1,015	3,799	2,741	1,058
Finance income	197	515	(318)	1,004	1,015	(11)
Finance expense	(1,158)	(470)	(688)	(1,648)	(972)	(676)
Net finance income (expense) (Note 5)	(961)	45	(1,006)	(644)	43	(687)
Net income (loss)	$ 1,414	$ 1,405	$ 9	$ 3,155	$ 2,784	$ 371

Saskatchewan Water Corporation

Statement of Retained Earnings

(unaudited - thousands of dollars)

	Three months ended June 30			Six months ended June 30		
	Actual 2015	Actual 2014	Variance	Actual 2015	Actual 2014	Variance
Retained Earnings						
Retained Earnings, beginning of period	$ 43,945	$ 38,413	$ 5,532	$ 42,501	$ 37,034	$ 5,467
Total comprehensive income for the period	1,414	1,405	9	3,155	2,784	371
Dividends	(365)	-	(365)	(662)	-	(662)
Retained Earnings, end of period	$ 44,994	$ 39,818	$ 5,176	$ 44,994	$ 39,818	$ 5,176

Saskatchewan Water Corporation

Statement of Cash Flows

(unaudited - thousands of dollars)

	Three months ended		Six months ended	
	June 30 2015	June 30 2014	June 30 2015	June 30 2014
Operating activities				
Net income (loss)	$ 1,414	$ 1,405	$ 3,155	$ 2,784
Items not affecting cash from operations:				
Amortization of property, plant and equipment	1,937	2,077	3,875	4,089
Impairment of assets	-	28	-	28
Amortization of deferred revenue	(737)	(803)	(1,473)	(1,588)
Amortization of provisions - onerous contracts	(61)	(59)	(121)	(117)
Net financing (income) expense	961	(45)	644	(43)
Loss (gain) on disposal of property, plant and equipment	4	(34)	4	(49)
Change in non-cash working capital items:				
Trade and other receivables	(4,229)	(3,162)	7,864	9,428
Prepaid expenses and inventories	32	421	(127)	221
Trade and other payables	2,354	1,036	(8,181)	(3,552)
Infrastructure deposits	366	10,844	(8,993)	11,199
Deferred revenue	9,093	13,794	16,520	20,744
Interest paid	(444)	(457)	(914)	(937)
Interest received	4	6	8	10
Cash provided by operating activities	10,694	25,051	12,261	42,217
Investing activities				
Property, plant and equipment expenditures	(11,845)	(14,499)	(20,895)	(22,136)
Proceeds on disposal of property, plant and equipment	18	79	18	94
Cash used in investing activities	(11,827)	(14,420)	(20,877)	(22,042)
Financing activities				
Proceeds from long-term debt	-	-	-	-
Proceeds from (Repayments of) notes payable	40	(3,000)	3,591	(6,400)
Debt retirement fund installments	(129)	(253)	(504)	(1,381)
Dividends paid	(297)	-	(297)	-
Cash provided by financing activities	(386)	(3,253)	2,790	(7,781)
Change in Cash	(1,519)	7,378	(5,826)	12,394
Cash, Beginning of Period	7,440	9,248	11,747	4,232
Cash, End of Period	$ 5,921	$ 16,626	$ 5,921	$ 16,626

Saskatchewan Water Corporation

Notes to the Financial Statements - unaudited

June 30, 2015

1. General Information

The Saskatchewan Water Corporation (the Corporation) is a corporation located in Canada. The address of the Corporation's registered office and principal place of business is 200-111 Fairford Street East, Moose Jaw, SK, S6H 1C8.

The Corporation was established on July 1, 1984 under the authority of The Water Corporation Act which remained in effect until June 30, 2002. On October 1, 2002 The Saskatchewan Water Corporation Act was proclaimed.

By virtue of *The Crown Corporations Act, 1993*, the Corporation has been designated as a subsidiary of Crown Investments Corporation of Saskatchewan (CIC). Accordingly, the financial results of the Corporation are included in the consolidated financial statements of CIC, a Provincial Crown corporation. As the Corporation is a Provincial Crown corporation, it is not subject to Federal or Provincial income taxes in Canada, but is subject to Provincial corporate capital tax.

The principal activity of the Corporation is to construct, acquire, manage or operate works and to provide services in accordance with any agreements that it enters into pursuant to *The Saskatchewan Water Corporation Act*.

2. Basis of Preparation

Statement of compliance

These condensed interim financial statements have been prepared in accordance with International Accounting Standard (IAS) 34 - *Interim Financial Reporting* and accordingly do not include all of the information required for full annual financial statements.

The condensed interim financial statements were authorized for issue by the Board of Directors on August 19, 2015.

Interim measurement

SaskWater's sales to municipal customers are seasonal, with the second and third quarters being the strongest periods, reflecting hotter weather and higher outdoor water usage.

Basis of measurement

The condensed interim financial statements have been prepared on the historical cost basis except for the following:

- Financial instruments that are accounted for at fair value through profit and loss.
- Provisions.
- Employee benefit obligations.

Functional and presentation currency

These financial statements are presented in Canadian Dollars, which is the Corporation's functional currency.

2. Basis of Preparation (continued)

Use of estimates and judgments

The preparation of these condensed interim financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Significant areas of estimation uncertainty and critical judgments in applying accounting policies are:

- Valuation of trade and other receivables
- Underlying estimates of useful lives and amortization of property, plant and equipment
- Underlying estimates of deferred revenue and infrastructure deposits
- Carrying amounts of provisions and underlying estimates of future cash flows
- Carrying amounts of employee benefits and underlying actuarial assumptions
- Underlying estimates for future commitments and contingencies

3. Significant Accounting Policies

The accounting policies and methods of computation used in the preparation of these condensed interim financial statements are consistent with those disclosed in the corporation's December 31, 2014 audited financial statements.

The accounting policies have been applied consistently to all periods presented in these condensed interim financial statements.

New standards and amendments to standards

The following new standards, and amendments to standards, effective for annual periods beginning on or after January 1, 2015, have been applied in preparing these condensed financial statements:

- IAS 32 Financial Instruments: Presentation — Effective Date - January 1, 2015

The adoption of IAS 32 had no material impact on the financial statements. The new disclosure requirements will be provided in the 2015 annual financial statements.

New standards and interpretations not yet adopted

IFRS 9, Financial Instruments standard is not yet effective for the period ended June 30, 2015, and have not been applied in preparing these condensed consolidated financial statements. The extent of the impact of IFRS 9 is not known at this time. The International Accounting Standards Board has deferred finalization of IFRS 9 indefinitely, and therefore, the effective date is unknown.

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Notes to the Financial Statements - unaudited
June 30, 2015

4. Revenue

	Three months ended June 30		Six months ended June 30	
	2015	2014	2015	2014
	(Thousands)		(Thousands)	
Water sales and treatment				
Potable water supply	$ 4,873	$ 4,315	$ 8,694	$ 8,013
Non-Potable water supply	4,457	3,944	8,580	7,834
Wastewater treatment	172	162	331	308
	9,502	8,421	17,605	16,155
Services				
Certified operations & maintenance	419	389	804	757
Project management	1,435	1,026	2,723	2,009
Northern project management	164	154	285	297
Operator training	183	153	366	343
Leak detection	15	12	15	12
Other services	-	-	-	-
	2,216	1,734	4,193	3,418
Other				
Amortization of customer contributions	679	746	1,300	1,416
Amortization of government grants - capital related	57	57	172	172
Miscellaneous revenue	151	109	292	236
	887	912	1,764	1,824
	$ 12,605	$ 11,067	$ 23,562	$ 21,397

5. Finance income and expenses

	Three months ended June 30		Six months ended June 30	
	2015	2014	2015	2014
	(Thousands)		(Thousands)	
Finance income				
Debt retirement fund earnings	$ 193	$ 191	$ 774	$ 313
Positive changes in fair value of debt retirement funds	-	318	223	692
Other finance income	4	6	7	10
	197	515	1,004	1,015
Finance expenses				
Interest expense on short-term debt	39	31	91	94
Interest expense on long-term debt	410	410	821	821
Negative changes in fair value of debt retirement funds	681	-	681	-
Unwinding of discount on provisions	27	28	54	55
Other interest expense	1	1	1	2
	1,158	470	1,648	972
Net finance expense	$ (961)	$ 45	$ (644)	$ 43

Saskatchewan Water Corporation

Notes to the Financial Statements - unaudited
June 30, 2015

6. Equity Advance and Capital Disclosure

The Corporation does not have share capital. However, the Corporation has received advances from CIC to form its equity capitalization. The advances reflect an equity investment in the Corporation by CIC.

The Corporation's debt management plan is built on the goal of ensuring the capacity to meet long term obligations and ensuring financial health, while achieving the growth plans of the Corporation.

As a Crown corporation, SaskWater receives its long-term capital funding primarily from the Saskatchewan Ministry of Finance. SaskWater also has access to a $30 million line of credit, extended by the Saskatchewan Ministry of Finance, which is used to manage short-term liquidity.

The Corporation's capital consists of notes payable, long-term debt and equity, less debt retirement funds.

The Corporation monitors capital on the basis of the debt ratio. The current long-term debt ratio target is 60%, which is consistent with the prior period. The debt ratio is calculated as net debt divided by end of period capitalization as follows:

	June 30, 2015	December 31, 2014
	(Thousands)	
Gross long-term debt	$ 38,700	$ 38,700
Notes payable	23,719	20,128
Debt retirement funds	(17,810)	(16,989)
Net debt	44,609	41,839
Total equity	53,694	51,201
Capitalization	$ 98,303	$ 93,040
Debt ratio	45.4%	45.0%

The Corporation has complied with all externally imposed restrictions on its debt for the period ended June 30, 2015.

7. Commitments and Contingencies

a) Contractual commitments (Thousands)

As of June 30, 2015, the Corporation has outstanding commitments of $29,048 (December 31, 2014 - $44,775) for construction contracts and consulting agreements primarily relating to assets under construction and other service contracts.

b) Litigation

The Corporation has provided, in its accounts, for any known claims from lawsuits or other legal proceedings for which there is material risk of liability to the Corporation in accordance with management's best estimates and the advice received from legal counsel. The Corporation intends to account for any differences which may arise between amounts provided and amounts expended in the period in which the claims are resolved.

8. Financial instruments

a) Fair values

Fair values are the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair values are estimates using present value and other valuation techniques which are significantly affected by the assumptions used concerning the amount and timing of estimated future cash flows and discount rates that reflect varying degrees of risk. Therefore, due to the use of judgment and future-oriented information, aggregate fair value amounts should not be interpreted as being realizable in an immediate settlement of the instruments.

The following summarizes the classification, carrying amounts and fair values of the Corporation's financial instruments:

	Classification[1]	June 30, 2015 Asset (Liability) Carrying Amount (Thousands)	June 30, 2015 Asset (Liability) Fair Value	December 31, 2014 Asset (Liability) Carrying Amount	December 31, 2014 Asset (Liability) Fair Value
Financial assets					
Cash	FVTPL	$ 5,921	$ 5,921	$ 11,747	$ 11,747
Trade and other receivables	L&R	21,351	21,351	29,215	29,215
Debt retirement funds	FVTPL	17,810	17,810	16,989	16,989
Financial liabilities					
Trade and other payables	OL	13,733	13,733	21,913	21,913
Notes payable	OL	23,719	23,719	20,128	20,128
Dividends payable	OL	365	365	-	-
Infrastructure deposits	OL	10,106	10,106	19,099	19,099
Long-term debt	OL	38,700	43,341	38,700	43,300

[1]Classification details are as follows:
FVTPL - Fair value through profit and loss
L&R - Loans and Receivables
OL - Other Liabilities

8. Financial instruments (continued)

The estimated fair values of these financial instruments have been determined based on the following methods and assumptions, and may not represent the amounts that could be realized upon settlement.

All long-term debt obligations are estimated using discounted cash flow analysis based on current market yields for similar arrangements (Level 2). Debt retirement funds are valued at closing period-end unit prices received from the Saskatchewan Ministry of Finance (Level 2).

b) Determination of fair values

When the carrying amount of a financial instrument is the most reasonable approximation of fair value, reference to market quotations and estimation techniques is not required. The carrying values of cash, trade and other receivables, trade and other payables and notes payable approximate their fair values due to the short-term maturity of these financial instruments.

For financial instruments listed below, fair value is best evidenced by an independent quoted market price for the same instrument in an active market. An active market is one where quoted prices are readily available, representing regularly occurring transactions. Accordingly, the determination of fair value requires judgment and is based on market information where available and appropriate. Fair value measurements are categorized into levels within a fair value hierarchy based on the nature of the inputs used in the valuation.

Level 1 – Where quoted prices are readily available from an active market.
Level 2 – Valuation model not using quoted prices, but still using predominantly observable market inputs, such as market interest rates.

	June 30, 2015		December 31, 2014	
	Level 1	Level 2	Level 1	Level 2
		(Thousands)		
Debt retirement funds	$ -	$ 17,810	$ -	$ 16,989
Long-term debt	$ -	$ 43,341	$ -	$ 43,300